

Name: \_\_\_\_\_

County: \_\_\_\_\_

Date: \_\_\_\_\_

***ASSESSMENT OF WATER COMPANIES AND WATER RIGHTS  
SELF-STUDY TRAINING SESSION***

**REVIEW QUESTIONS**

**PART I. ASSESSMENT OF WATER COMPANIES**

1. Water companies (or water systems) and other water source properties are unique types of assessable property.

☐ True

☐ False

2. List the four types of water systems.

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

4. \_\_\_\_\_

3. Of the following, which water system is subject to regulation by the California Public Utilities Commission (CPUC)?

☐ Mutual Water Companies

☐ Regulated Public Utilities

☐ Other Water Source Properties

☐ Government-Owned (Publicly-Owned) Water Systems

4. Give two examples of other water source properties.

1. \_\_\_\_\_

2. \_\_\_\_\_

5. Why is a proper classification of a water system vital?

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6. List three sources that may provide county assessors with information that aids in the discovery and proper assessment of water-related properties.

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3. 

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7. Which of the following departments is responsible for the inspection and regulatory oversight of approximately 8,500 public water systems to assure the delivery of safe drinking water to all California consumers?

- ☐ County Department of Public Health
- ☐ California Public Utilities Commission
- ☐ California Department of Health Services
- ☐ All of the above

8. The Board prescribes a property statement specific to regulated water companies.

- ☐ True
- ☐ False

9. What property statement should be used by county assessor for regulated water companies?

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10. Using Form \_\_\_\_\_, as opposed to a county-developed form or questionnaire, allows a county assessor to enforce the \_\_\_\_\_ penalty for the nonfiling or late filing of a property statement.

11. A county assessor should request that a regulated water company provide a copy of its annual CPUC report as an attachment to the annual filing of the general property statement.
- ☐ True
- ☐ False
12. What does a CPUC report provide?
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
13. County assessors may request owners of water systems and related properties to file an annual property statement other than those statements prescribed by the Board.
- ☐ True
- ☐ False
14. County assessors can legally enforce a section 463 penalty for the nonfiling or late filing of a form or property statement that is not prescribed by the Board.
- ☐ True
- ☐ False
15. How is the real property owned by a water company assessed?
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
16. Personal property owned or used by a water company is governed by the base year value limitations of article XIII A.
- ☐ True
- ☐ False

17. How is a public utility defined by the California Public Utilities Code?

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18. List the four characteristics that a public utility possesses, according to *Accounting for Public Utilities*.

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19. Public utility water companies are assessed by the State Board of Equalization as required by article XIII, section 19 of the California Constitution.

- ☐ True
- ☐ False

20. What is the scope of the regulatory agencies?

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21. Privately-owned public utility water companies, that operate to earn a profit from the sale of water, are subject to regulation by which of the following?

- ☐ County Department of Public Health
- ☐ California Public Utilities Commission (CPUC)
- ☐ Regional Water Quality Control Boards
- ☐ State Water Resources Control Board

22. CPUC establishes the rate base for each public utility water company.

- ☐ True
- ☐ False

23. How is the revenue requirement level, used to set utility rates charged to customers, determined?

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24. The rate base for a regulated water utility is set prospectively (future test year) over a \_\_\_\_\_ consisting of \_\_\_\_\_ based on cost.

25. List the four classes that the water utilities are divided into, for rate making purposes.

- 1. \_\_\_\_\_
- 2. \_\_\_\_\_
- 3. \_\_\_\_\_
- 4. \_\_\_\_\_

26. In computing the rate base by the CPUC, which of the following are added to arrive at the rate base?
- ☐ Average Accumulated Deferred Income Taxes
  - ☐ Average Deferred Investment Tax Credits
  - ☐ Average Working Cash
  - ☐ Average Reserve for Depreciation at End of Year
27. In computing the rate base by the CPUC, which of the following are subtracted to arrive at the rate base?
- ☐ Average Reserve for Depreciation at End of Year
  - ☐ Average Accumulated Deferred Income Taxes
  - ☐ Average Advances for Construction
  - ☐ All of the above
28. The CPUC must approve the sale or transfer of regulated water utilities.
- ☐ True
  - ☐ False
29. As of January 1, 1998, if the Commission approves the acquisition of the utility, the Commission, in most cases, must recognize the \_\_\_\_\_ as the basis for rate making.
30. Public Utilities Code section 2720(b) provides that if the fair market value exceeds reproduction cost, as determined in accordance with Section 820 of the Evidence Code, the commission may include the difference in the rate base for rate setting purposes if it finds that the additional amounts are fair and reasonable.
- ☐ True
  - ☐ False
31. Of the following, which are the most reliable and useful value indicators for properties subject to regulation?
- ☐ Comparative sales approach and replacement cost approach
  - ☐ Stock and debt approach
  - ☐ Historical cost less depreciation approach and income approach
  - ☐ All of the above

32. Contributions in Aid of Construction (CIAC) is defined as:

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33. The value of CIAC is generally \_\_\_\_\_ because a prospective purchaser would not pay for property on which he or she is unable to earn a return on or recover the investment.

34. Advances for Construction represent money expended by a developer or customer in order to receive service.

☐ True

☐ False

35. The utility is allowed to recover \_\_\_\_\_ but must refund the \_\_\_\_\_.

36. The CPUC rules provide that Advances shall be refunded by the utility, in cash, without interest for a period not to exceed which of the following years?

☐ 10 years after the date of contract

☐ 20 years after the date of contract

☐ 30 years after the date of contract

☐ 40 years after the date of contract

37. What is recorded by deferred income taxes?

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38. The historical cost less depreciation (HCLD) indicator for the properties should be adjusted to reflect the earnings limitation imposed by the rate making treatment of the deferred income taxes. What is the proper adjustment that needs to be made to the HCLD indicator?

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39. A mutual water company is a private (usually nonprofit) association created for the purpose of providing water primarily to its \_\_\_\_\_

40. Companies organized for mutual purposes are generally subject to regulation by the CPUC.

- ☐ True  
☐ False

41. Of the following, which approach to value is generally preferred when appraising the property of a mutual water company?

- ☐ Comparative sales approach  
☐ Stock and debt approach  
☐ Income approach  
☐ Reproduction or replacement cost approach

42. When may the value of the owner's equity interests in a mutual water company association not be equivalent to the fee value of the association's property?

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43. List the information regarding a mutual water company that an appraiser should obtain in order to value the associated property appropriately.

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_

44. In most cases, mutual water company shares are \_\_\_\_\_ to the land.

45. Explain why a separate assessment of the mutual water company assets may cause a duplicate assessment.

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46. Government-owned water systems are subject to regulation by the CPUC.

☐ True

☐ False

47. Land owned by government entities should be assessed at the lowest of:

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

48. A water system has a possessory interest whenever \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

49. Other water source properties that may be taxable include \_\_\_\_\_  
\_\_\_\_\_

50. Generally, what is the most applicable method in appraising other water source properties?

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51. In general, locally assessed real property owned by a water company is assessed yearly at the lesser of its factored base year value or its full cash value on each lien date as defined in section 110.

☐ True

☐ False

52. The stock and debt approach may not be applicable in the valuation of most water companies. What are the limitations of this approach to value?

1. \_\_\_\_\_

\_\_\_\_\_

2. \_\_\_\_\_

\_\_\_\_\_

3. \_\_\_\_\_

\_\_\_\_\_

4. \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

53. Match the following by definition.

\_\_\_\_\_ An estimate of the cost of replacing the subject property with an exact replica using costs as of the valuation date.

1. Replacement Cost

\_\_\_\_\_ The total costs associated with the purchase of an asset, for accounting purposes.

2. Reproduction Cost

\_\_\_\_\_ Estimated cost of a property that is equivalent to the subject in terms of utility.

3. Historical Cost

54. Of the following, which approach will be most often used in the appraisal of a water company or water system?

☐ Replacement cost

☐ Reproduction cost

55. In the context of a water system property, what are the steps employed in the cost approach?

1. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
2. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
3. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
4. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
5. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

56. Full economic costs include which of the following costs?

- ☐ Direct costs only
- ☐ Direct and indirect costs
- ☐ Direct and indirect costs and entrepreneurial services
- ☐ Direct and indirect costs and contractor's overhead and profit

57. The most difficult aspect of the cost approach is estimating which of the following components?

- ☐ Indirect costs
- ☐ Entrepreneurial profit
- ☐ Depreciation
- ☐ Administrative expenses

58. Describe the limitations of the replacement cost approach.

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59. The \_\_\_\_\_ approach is a generally accepted method for valuing property interests of rate base regulated utilities.

60. To derive a historical cost less depreciation (HCLD) value indicator, an appraiser must first estimate a company's taxable historical cost. How is this cost determined?

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61. Using the data provided in the table below, determine the taxable historical cost of the assessable property.

Historical Cost (all property)	\$10,000,000
Historical Cost of Nontaxable Items	\$2,000,000
Contributions in Aid of Construction (CIAC)	\$200,000
Advances	\$30,000

\$ \_\_\_\_\_

62. Using the following data, determine the depreciation for the assessable property.

Book Depreciation	\$7,500,000
Depreciation for Nontaxable Property	\$300,000
Depreciation for Out of County/State Property	\$150,000

\$ \_\_\_\_\_

63. Of the following, which items should be included in the final value indicator when they are considered assessable properties pursuant to the Revenue and Taxation Code?
- ☐ Working cash
  - ☐ Inventory
  - ☐ Construction in progress
  - ☐ Property located in federal enclaves
64. Which of the following items should not be included in HCLD?
- ☐ Contributions in aid of construction
  - ☐ Advances for construction
  - ☐ Deferred taxes
  - ☐ Licensed motor vehicle
65. Property which is donated or given to a utility is known as \_\_\_\_\_
- \_\_\_\_\_
66. Customers, usually developers, contribute property to utilities in order to induce them to connect to or provide service to their projects.
- ☐ True
  - ☐ False
67. Is the property contributed to a regulated utility included in the rate base in determining the rates the utility can charge its customers?
- ☐ Yes
  - ☐ No
68. When HCLD is a valid indicator of value for the entire appraisal unit, the value of CIAC is generally \_\_\_\_\_.
69. Explain why a prospective purchaser would not pay for Advanced property.
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_

70. What is the proper disposition of a future use property?

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71. Using the data below, determine the HCLD value indicator.

Taxable Historical Cost of Assessable Property	\$15,235,000
Depreciation for Assessable Property	\$8,200,000
Deferred Income Tax Liability	\$100,000

\$ \_\_\_\_\_

72. The income approach should be considered as a valid approach to value when a property meets what three assumptions?

1. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

2. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

73. Match the following by definition.

Method used to convert a single year's anticipated income into an indication of value by dividing the anticipated income by an appropriate rate or multiplying the anticipated income by an appropriate factor.

\_\_\_\_\_

1. Direct Capitalization

Method used to convert anticipated future benefits into a present value by discounting each of the future benefits at an appropriate yield rate or by a derived overall capitalization rate that explicitly reflects the income pattern, change in property value, and return on and of capital.

\_\_\_\_\_

2. Yield Capitalization

74. Care should be exercised in the selection of a proper income stream premise or model. What is the primary model recommended for water companies?

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75. In certain factual situations where it is determined that replacements to the property will not be made, a \_\_\_\_\_ is suggested.

76. When a limited life model is deemed appropriate, any remaining benefits at the end of finite life are discounted to present value and added to the capitalization income.

☐ True

☐ False

77. A working cash allowance is required to provide the owner with a return on funds provided to the business for the purpose of paying operating expenses in advance of receipt of offsetting revenue from its customers.

☐ True

☐ False

78. Using the following data, calculate the working cash allowance.

Anticipated Operating Expenses	\$20,000,000
18-Day Working Cash Requirement	5%
Projected Working Cash Requirement	\$ _____
Basic Capitalization Rate	10.0%
Income Tax Component	4.5%
Basic Rate Plus Income Tax Component	_____ %
Working Cash Allowance	\$ _____

79. What does the capitalization rate include?

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80. What are the reasons that the yield rate and the rate of return allowed by the CPUC differ?

1. \_\_\_\_\_

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2. \_\_\_\_\_

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81. What is the purpose of Section 11 of the California Constitution?

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82. The roll value for taxable government-owned extraterritorial property in counties other than Inyo and Mono is the lowest of:

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2.

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83. Section 11 makes taxable those extraterritorial interests in property held by local governments in both sole ownership and joint ownership.

- ☐ True
- ☐ False



84. The provisions of article XIII, section 11 of the California Constitution are not applicable to personal property.

☐ True

☐ False

85. Proper valuation of new construction means estimating the \_\_\_\_\_ of the qualifying new construction as of the \_\_\_\_\_ or, if the construction is in progress, as of the \_\_\_\_\_.

86. Of the following, which approach is nearly always used to value construction in progress?

☐ Income approach

☐ Sales approach

☐ Cost approach

☐ All of the above

87. When a market value assessment for property (i.e., CIP) is added to a final value indicator, care should be taken to ensure \_\_\_\_\_

88. In the reconciliation process, consideration should be given to any factors influencing value that are not reflected or only partially reflected in the indicators. The greatest weight should be given to which approach?

89. The reconciliation step should involve an analysis of:

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

4. \_\_\_\_\_

90. Specific to water companies and water systems, provide five examples of information that an auditor-appraiser should review prior to an audit.

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_

91. Give two examples of audit questions regarding inquiries about Contributions in Aid of Construction (CIAC).

1. \_\_\_\_\_
2. \_\_\_\_\_

92. An auditor-appraiser can select a sample of source documents (invoices, receiving reports, etc.) and compare them to the book cost. This sampling serves two purposes. What are they?

1. \_\_\_\_\_  
\_\_\_\_\_
2. \_\_\_\_\_  
\_\_\_\_\_

93. Give two examples of equipment that are not recorded in the fixed asset accounts and explain how they could be identified.

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94. When the cost approach is applicable and utilized, it may be necessary for each group of equipment to be classified and valued separately.

- ☐ True
- ☐ False

95. To confirm that the practice of assessing CIAC for a particular company at a value of zero is accurate, what should an auditor-appraiser verify?

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96. When conducting an audit in which Advances are encountered, what should an auditor-appraiser determine?

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97. The audit of supplies consists primarily of ensuring that the assessee has properly reported supplies on hand on the lien date. "Properly reported" means that:

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2. 

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98. What are the principal sources of obtaining information for leased property?

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99. With regard to a water company, the tour and inspection may be more significant.

☐ True

☐ False

## **PART II. ASSESSMENT OF WATER RIGHTS**

100. The excess withdrawal from ground water basins is referred to as \_\_\_\_\_

101. The largest use of water in California is for which of the following uses?

☐ Urban

☐ Commercial

☐ Industrial

☐ Agricultural

102. Why is a basic understanding of water rights law necessary?

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103. The location, source, and use of water define both the kind of water right as well as the nature and extent of that right, including:

1. \_\_\_\_\_  
\_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

4. \_\_\_\_\_

104. Water rights in California can be acquired in which of the following ways?

☐ Ownership of land with water rights

☐ Appropriation

☐ Prescription

☐ All of the above

105. All water within California is the property of the people of California, and is not subject to private ownership while in its natural state or watercourse, even though it is considered part and parcel of the land where it is found.

☐ True

☐ False

106. The measure of the water right in California is that amount of water diverted and put to beneficial use.

☐ True

☐ False

107. \_\_\_\_\_ traditionally refers to the amount or quantity of water necessary to irrigate a given measure of land.

108. Water rights are taxable as real property.

☐ True

☐ False

109. Explain how the real property attributes apply to water rights.

a. \_\_\_\_\_  
\_\_\_\_\_

b. \_\_\_\_\_  
\_\_\_\_\_

c. \_\_\_\_\_  
\_\_\_\_\_

d. \_\_\_\_\_  
\_\_\_\_\_

e. \_\_\_\_\_  
\_\_\_\_\_

f. \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

110. The right to appropriated water is an interest in personal property.
- ☐ True
- ☐ False
111. How are the riparian and overlying water rights assessed?
- \_\_\_\_\_
112. Appropriative and prescriptive rights to divert water are assessed at \_\_\_\_\_not where the water is ultimately used.
113. Water rights retain the classification of land for assessment purposes even though ownership of the associated land is not held.
- ☐ True
- ☐ False
114. Most water transfers in the state are short term and are not a transfer of water rights.
- ☐ True
- ☐ False
115. Of the following, which is a stream that has a definite bed, banks, and a channel that flows into some other stream, river, lake, or sea?
- ☐ Drainage basin
- ☐ Watercourse
- ☐ Watershed
- ☐ Runoff
116. When the water is prevented from further downward movement it begins filling cavities, rock fractures and other porous or void spaces in bedrock. What is the name of the top of this saturated ground?
- ☐ Ground water
- ☐ Surface water
- ☐ Artesian water
- ☐ Water table

117. What are the two types of water that are recognized by California water rights law?
1. \_\_\_\_\_
2. \_\_\_\_\_
118. Which of the following types of water are governed by riparian, appropriative, and prescriptive rights?
- ☐ Surface water only
- ☐ Ground water only
- ☐ Surface and ground water
119. How is a riparian right defined?
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
- \_\_\_\_\_
120. What are the three criteria that a parcel must meet before a riparian right can attach to it?
1. \_\_\_\_\_
- \_\_\_\_\_
2. \_\_\_\_\_
- \_\_\_\_\_
3. \_\_\_\_\_
- \_\_\_\_\_
121. A riparian right accrues to anyone who owns the fee simple title to land adjoining a stream or lake, including parties with possessory interests in government land adjacent to the body of water.
- ☐ True
- ☐ False

122. Riparian rights may extend to several kinds of surface and subterranean waters. Give four examples.

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_
4. \_\_\_\_\_

123. Riparian rights are generally lost by non-use.

- ☐ True
- ☐ False

124. How is an appropriative right defined?

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125. An appropriative right is a basic right inherent to the ownership of the land and attaches to land contiguous to the water source.

- ☐ True
- ☐ False

126. What steps need to be completed in order for a person to acquire an unconditional and complete appropriative right?

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127. Of the following, which are the ways that the appropriative rights can be lost?

- ☐ Eminent domain
- ☐ Abandonment
- ☐ Forfeiture caused by non-use
- ☐ All of the above



128. An \_\_\_\_\_ refers to the right of the owner of lands overlying percolating ground waters to use the waters for reasonable beneficial purposes on the \_\_\_\_\_ within the same watershed.
129. What are the three types of (under) ground water recognized by California water rights law?
1. \_\_\_\_\_
  2. \_\_\_\_\_
  3. \_\_\_\_\_
130. A \_\_\_\_\_ is a permanent right to divert and use water when the elements for adverse use are met.
131. In order to obtain water rights by prescription, the use of water must meet some conditions. What are they?
1. \_\_\_\_\_
  2. \_\_\_\_\_
  3. \_\_\_\_\_
  4. \_\_\_\_\_
  5. \_\_\_\_\_
  6. \_\_\_\_\_
132. Can a prescriptive right be acquired on excess or surplus water?
- ☐ Yes
- ☐ No
133. An \_\_\_\_\_ is not a separate type of water right but a term used to describe a method of confirming or validating water rights between claimants.
134. The pueblo right is superior to all other rights.
- ☐ True
- ☐ False

135. Identify four factors that give the water right its unique value to the current owner and any potential buyers.

1. \_\_\_\_\_

2. \_\_\_\_\_

3. \_\_\_\_\_

4. \_\_\_\_\_

136. Comparable sales must be sufficiently comparable in terms of location, physical characteristics and use so as to shed light on the value of a property. Give an example of a water sale that may not be comparable to a subject property.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

137. From the following data, determine the water right value using the income approach.

Annual Income	\$10,000
Market-Derived Direct Capitalization Rate	9%
Effective Ad Valorem Property Tax Rate	1%

\$ \_\_\_\_\_

138. The transferred water rights should be assessed at their \_\_\_\_\_ as of the date of \_\_\_\_\_.

139. Since water rights are considered land by definition, the severed water right is most appropriately entered on the secured roll as land value.

☐ True

☐ False

140. There is a statewide regulation of water rights for ground water by the State Water Resources Control Board.

☐ True

☐ False

141. What is the main purpose of the watermaster program?

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142. Watermasters, particularly watermasters of ground water basins, can potentially be an excellent resource for such information as:

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